

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 L-03 H-02 AGRE-00 /112 W

-----016380 081900Z /40

R 081726Z SEP 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1263

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY VIENNA

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USEEC ALSO FOR EMBASSY; USOECD ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN, ECON, GW

SUBJECT: GERMAN PROGRAM FOR STIMULATING THE ECONOMY

REF: BONN 14531

1. THE COALITION PARTIES HAVE NOW AGREED ON A
PACKAGE OF TAX REDUCTIONS TOTALING DM 7.4 BILLION
AND COMPOSED OF THE FOLLOWING:

(A) AN INCREASE IN THE BASIC EXEMPTION TO THE
INDIVIDUAL INCOME TAX BY DM 510 FOR SINGLE
TAXPAYERS AND DM 1020 FOR MARRIED COUPLES.

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SINCE THE BASIC EXEMPTION IS NOT DEDUCTED
FROM TAXABLE INCOME, BUT RATHER FROM THE
INCOME TAXABLE IN THE FIRST BRACKET, THIS
WILL RESULT IN A UNIFORM TAX SAVING OF
DM 112 FOR SINGLE TAXPAYERS AND DM 224 FOR
MARRIED COUPLES. THE FINANCE MINISTRY
CALCULATES THAT IT INVOLVES A LOSS OF TAX

REVENUES OF DM 3.6 BILLION PER YEAR. THE INCREASE IN THE BASIC EXEMPTION IS TO BECOME EFFECTIVE ON JANUARY 1, 1978.

(B) AN INCREASE IN THE "CHRISTMAS EXEMPTION" FOR EACH WAGE EARNER FROM THE PRESENT DM 100 TO A NEW DM 400. SINCE THE CHRISTMAS EXEMPTION IS DEDUCTIBLE FROM TAXABLE INCOME, TAX SAVINGS FOR INDIVIDUAL TAXPAYERS WILL DEPEND ON THEIR TOP TAX BRACKET. THE CHRISTMAS EXEMPTION IS NOT GRANTED TO SELF-EMPLOYED TAXPAYERS. THE FINANCE MINISTRY CALCULATES THAT THE REVENUE LOSS OF THIS MEASURE WILL BE DM 2.1 BILLION PER ANNUM. IT IS SCHEDULED TO BECOME RETROACTIVE FOR 1977.

(C) AN INCREASE IN THE ACCELERATED DEPRECIATION ALLOWANCE. GERMAN TAX LAW PROVIDES FOR A CHOICE BETWEEN LINEAR AND DECLINING BALANCE DEPRECIATION. UNTIL NOW THE DECLINING BALANCE DEPRECIATION COULD NOT START WITH MORE THAN TWICE THE LINEAR AMOUNT. IT IS PROPOSED TO NOW CHANGE THIS TO TWO AND A HALF TIMES THE LINEAR AMOUNT, EFFECTIVE RETRO-actively TO SEPTEMBER 1, 1977. THE FINANCE

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MINISTRY CALCULATES THE REVENUE LOSS OF THIS MEASURE AT DM 1.7 BILLION PER ANNUM.

2. IT IS NOT YET CLEAR WHETHER THE ABOVE PACKAGE WILL BE INTRODUCED AS A GOVERNMENT DRAFT LAW OR AS A LAW SPONSORED BY A GROUP OF BUNDESTAG DEPUTIES (WHICH WOULD SLIGHTLY SPEED UP PROCEDURES). IN ANY CASE, THE OPPOSITION STILL PLANS TO INTRODUCE ITS COUNTERPROPOSAL OF A 10 PERCENT TEMPORARY ACROSS-THE-BOARD INCOME TAX CUT UNDER THE STABILITY AND GROWTH LAW WHICH WOULD AMOUNT TO A REVENUE LOSS OF DM 14 BILLION PER ANNUM. SINCE A TAX PACKAGE CANNOT PASS THE BUNDES-RAT WITHOUT THE VOTES OF AT LEAST SOME OPPOSITION-LED LAENDER GOVERNMENTS, THE ENACTMENT OF THE GOVERNMENT'S PROPOSALS IS STILL QUITE UNCERTAIN. THE OPPOSITION PARTICULARLY OBJECTS TO THE INCREASE IN THE BASIC INDIVIDUAL INCOME TAX EXEMPTION SINCE THE AMOUNT INVOLVED WOULD TEND TO PREJUDICE THE INCOME TAX RATE RESTRUCTURE WHICH IS SCHEDULED FOR 1979/80. IT MIGHT THUS WELL BE THAT IN THE END THE GOVERNMENT MAY HAVE TO COMPROMISE ON THIS POINT AND SUBSTITUTE SOME TEMPORARY REDUCTION SUCH AS THE "TEMPORARY CONJUNCTURAL DEDUCTION" WHICH HAD

BEEN ADVOCATED BY AT LEAST PARTS OF THE FDP.

3. THE GOVERNMENT IN ITS "STIMULATIVE PROGRAM" IN
ADDITION TO THE DM 7.4 BILLION OF TAX REDUCTIONS

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FM AMEMBASSY BONN
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DEPARTMENT TREASURY
INFO AMEMBASSY BERN
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LISTED IN PARA 1 ABOVE ALSO COUNTS DM 3.0 BILLION OF
ADDITIONAL GOVERNMENT EXPENDITURES. IT IS NOT YET
CLEAR EXACTLY WHAT ADDITIONAL EXPENDITURES THE
GOVERNMENT HERE PLANS TO COUNT. IT HAS ANNOUNCED
THAT IT NOW PLANS TO INCREASE FEDERAL EXPENDITURES
DURING 1978 BY 9.2 - 10.0 PERCENT ABOVE 1977. (THIS
COMPARES TO A 7 PERCENT INCREASE WHICH HAD BEEN
SCHEDULED FOR 1978 IN THE MEDIUM-TERM FISCAL PLAN
PUBLISHED AT THE TURN OF THIS YEAR AND 8 PERCENT AND
LATER 9 PERCENT MENTIONED BY FINANCE MINISTER APEL
IN THE COURSE OF THIS SUMMER.) ACCORDING TO SOME
PRESS REPORTS, THE DM 3 BILLION INCREASE IS TO INVOLVE
DM 1 BILLION OF FEDERAL EXPENDITURES (WHICH WOULD
PRESUMABLY BE THE INCREASE OVER THE 9 PERCENT LAST

MENTIONED BY APEL) AND DM 2 BILLION OF LAENDER AND
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LOCAL GOVERNMENT EXPENDITURES. THE FEDERAL GOVERNMENT
HOWEVER CAN DO NO MORE THAN URGE THESE LATER
EXPENDITURES, AND THE LAENDER HAVE SO FAR INDICATED
THAT THEY ARE NOT ABLE TO UNDERTAKE THEM.

4. IN ADDITION TO THE ABOVE, THE GOVERNMENT IS ALSO
PLANNING TO FORMULATE AND ENACT A DM 4-5 BILLION ENERGY
PROGRAM RUNNING OVER A NUMBER OF YEARS AND INVOLVING
MAINLY SUBSIDIES AND OTHER SPECIAL INCENTIVES FOR
ENERGY-SAVING MEASURES. ADDITIONAL SUBSIDIES FOR
RESEARCH AS WELL AS A FEDERAL BUDGET SUBSIDY OF
DM 0.8 BILLION TO THE SOCIAL INSURANCE SYSTEM ARE
ALSO PLANNED FOR 1978, BUT THESE PRESUMABLY ARE
ALREADY INCLUDED IN THE PROJECTED FEDERAL EXPENDITURE
INCREASE. A REDUCTION IN THE VOLUNTARY RETIREMENT
AGE FOR DISABLED WORKERS IS ALSO BEING CONSIDERED.

5. IN VERY PRELIMINARY COMMENTS, ECONOMICS MINISTRY
SPOKESMEN ARE QUOTED AS SAYING THAT THE TOTAL PACKAGE
INVOLVES A DIRECT EFFECT OF DM 10-11 BILLION OF
ADDITIONAL PURCHASING POWER CREATING WHICH TOGETHER
WITH SECONDARY EFFECTS WILL INCREASE 1978 GNP BY
DM 15-20 BILLION.
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